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Dan Smoot Report

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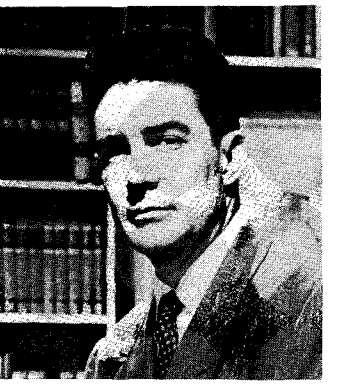

DAN SMOOT

DEFICIT FINANCING—PART II

As pointed out last week, the American economy enjoyed a decade of prosperity, beginning in 1946, not because of governmental policies, but in spite of them.

Through the corrupt and inequitable income tax, the federal government piled an enormous burden on our economy, draining off our production and the money of our workers for gifts to foreign governments and for spending programs at home — programs intended to buy public support for the politicians in power and to place the federal government in control of all economic activity.

Our overburdened economy could not forever carry the load. Confiscatory federal taxes and the costly harassments of federal controls, plus federal favoritism to monopolistic unionism, added such excessive costs to business operations in the United States, that American industry could not compete with foreign industries. Moreover, money taken away from Americans was given to foreigners to build their industries, reduce their taxes, and pay for their defense.

By the mid-1950's, our economy had begun to stagger under the load. Foreign competitors, enriched and subsidized at our expense, were capturing our markets, both domestic and foreign.

European nations began to outpace us in economic growth, and many were on the verge of surpassing us in actual strength. Foreign governments and bankers, losing confidence in our money and our economy, started liquidating their American holdings, taking, in exchange, the gold from our monetary reserve. Many American industries (unable to operate profitably in the United States) were closing and moving abroad, encouraged to do so by the policies of our own government.

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Forward to Disaster

By the end of the 1950's, America was already at the mercy of foreign governments and bankers. They held claims on more than all the gold we had in our monetary reserve. We were on the edge of becoming a nation of worthless currency, closed factories, and mass unemployment.

But, instead of retrenching, our government kept increasing the reckless spending. Eisenhower proposed the biggest peacetime budgets on record and (in 1959) ran the biggest peacetime deficit in history.

In foreign policy, our government kept pouring out our wealth to other nations — while engaging in an international begging operation that should have brought shame to every American. Eisenhower's emissaries went to the nations of western Europe, which had grown prosperous on our money, begging them to help us carry the burden of their own national defense; begging them to help us carry the burden of aid to underdeveloped nations; begging them to buy more American goods; begging them to stop exchanging their American holdings for the gold in our monetary reserve.

For the most part, the European nations responded by lecturing us on how to handle our affairs.

With the inauguration of Kennedy, matters grew much worse. Kennedy enlarged all the disastrous spending programs.

But before Kennedy had been in office six months, governmental officials had to face the grim truth that the monstrous income tax system of the United States had already passed the point of diminishing returns. Kennedy insisted on spending more money, but realized that he could not get the money through additional taxation.

The federal income tax had become a heavy penalty on those who worked hard and efficiently. More brains and energy were going into tax-avoidance activities than into efforts at production and expansion. With the federal government taking more of the profits of business than employees, management, and stockholders could keep, there was little possibility for accumulation of private capital for expansion and creation of new jobs — and little incentive.

In Search of Something New

Determined to increase spending, but unable to get additional revenues through taxation, the Kennedy administration sought for a way to take money away from Americans without their realizing that it was being taken. Deficit financing was the answer: borrow from future generations in order to provide benefits for the present, voting generation. A few may worry about the fate of their nation. A few may feel ashamed that they are getting something that their children's children will have to pay for; but not many. Besides, the public does not understand economics anyway. If too many people reveal scruples about stealing from their grandchildren, Keynesian economists in the administration and in the universities and in the newspaper world (reinforced by learned economists from abroad) can explain that we need not worry about a national debt, because we merely owe it to ourselves — can prove in fact that a big national debt is good for our economy!

Franklin D. Roosevelt, Harry Truman, and Dwight D. Eisenhower all spent more than they had to spend. All, consistently, ran huge deficits and piled up the national debt. In fact, federal spending has been kept within the limits of income only six years out of the past 33 years.

But neither Roosevelt, Truman, nor Eisenhower revealed quite the cynical contempt for the American people that Kennedy has revealed. Deficit financing actually became national policy in the first administration of Franklin D. Roosevelt, but it was never presented or admitted as such. Roosevelt, Truman, and Eisenhower always pretended that

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they believed in, wanted, and were striving for a balanced budget.

For political advantage, Kennedy himself has pretended respect for the idea that government must live within its means. Yet, while paying lip service to the traditional American respect for sound fiscal operations — and dishonestly concealing from the people the true state of affairs — Kennedy and his advisers and supporters gradually spread the propaganda that deficit financing is good for the country. The propaganda was sweetened with repeated promises of tax reduction.

Note a few salient facts.

In June, 1961, Douglas Dillon, Kennedy's Secretary of the Treasury, speaking to the National Press Club, said that the $3.7 billion deficit forecast for the 1961-62 fiscal year was not only "inevitable," but "appropriate," and that it raised no threat of "classic inflation."[1]

In October, 1961, when the regular "midyear" review of the federal government's fiscal operations was released to the press, it became generally known that the government would run a deficit of 6 billion, 300 million dollars in budgeted expenditures (spend that much more than it collected in taxes) during Kennedy's first full fiscal year — which began July 1, 1961.

In his January, 1962, budget message to Congress, President Kennedy said there would be a budget surplus of 463 million dollars for the *next* fiscal year (beginning July 1, 1962).

During the 1962 elections, New Frontier political candidates acknowledged the deficit in Kennedy's first fiscal year, with implications that the deficit was a kind of carryover of conditions from the Eisenhower administration. They talked about the 12 billion, 800 million dollar deficit which the Eisenhower administration ran in the 1959 fiscal year. And they pointed to the promised surplus of 463 million dollars in Kennedy's second fiscal year — all of this being their proof that the New Frontier was leading the nation to solvency.

The regular "midyear" review of the government's fiscal operations was not released to the public in the late summer or early fall of 1962 (as is established custom). The review was not released until *after* the elections in November — because the review revealed that Kennedy's promised "surplus" of 463 million dollars was a fiction and that the government was actually running another deficit — 7 billion, 800 million dollars for Kennedy's second fiscal year (which began July 1, 1962).[2]

Kennedy's Mythology

Thus, during the 1962 election year, Kennedy concealed from the public the facts about the huge deficit he was running, while New Frontier politicians sought votes by promising balanced budgets and sound fiscal operations. At the same time, however, propaganda for deficit financing as accepted national policy was cleverly seeping into the public consciousness.

In a report released on June 7, 1962, the Bank for International Settlements, Basle, Switzerland, said "the United States will risk continuing to have a rate of growth well below that of Europe, East and West," unless the United States government stimulates the American economy by increasing federal spending, or by reducing taxes. The bank recommended both measures — that is, it urged the U. S. government to enlarge its annual budget deficits.

The bank report recognized that increased deficit financing would also stimulate the flight of America's gold reserve to foreign lands. It suggested a raising of interest rates in the United States as a means of encouraging foreigners to keep their United States investments.[3]

On June 11, 1962, President Kennedy made a commencement speech at Yale, saying:

"Too often we hold fast to cliches of our forebears. . . . Mythology distracts us everywhere. . . .

"The myth persists that Federal deficits create inflation, and budget surpluses prevent it. . . . But honest assessment plainly requires a more sophisticated view. . . .

"There are myths also about our public debt. It is widely supposed that this debt is

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growing at a dangerously rapid rate.... [But] debts [public and private] are neither good nor bad in and of themselves. Borrowing can lead to overextension and collapse — but it can also lead to expansion and strength....

"Last week.... the Bank for International Settlements in Basle, Switzerland... representing the central bankers of Europe, suggested that the United States should follow a flexible budget policy as in Europe, with deficits when the economy is down, and a high monetary policy on interest rates, as in Europe, in order to control inflation and protect gold....

"The example of Western Europe shows that... government... can coordinate the elements of a national economy and bring about growth and prosperity."[4]

Speaking at the Loeb Award Luncheon in New York, at about the same time President Kennedy spoke at Yale, David E. Bell, Kennedy's Director of the Budget, said:

"There is a real danger that the attempt to achieve a budget balance too soon may itself contribute to bringing the recovery to a halt below full employment....

"There are positive benefits from a federal deficit in a recession."[5]

In a front-page article of the business section of *The New York Times* of July 9, 1962, Edwin L. Dale, Jr., reported from Paris that practically all European treasury officials and officials of European central banks were urging the United States to stimulate the American economy by more deficit spending.

From the December 19, 1962, issue of *EEC* (The European Common Market Newsletter):

"The 20-nation Organization for Economic Co-operation and Development sharply criticized the U. S. in a report for not having purposely enlarged its budget deficit in recent years....

"The report listed the slow process of budget formation in the U. S., the lack of power of the Executive branch to take action on taxes or spending by itself, and fears that expansionary budget action might worsen the deficit in the U. S. balance of international payments."

AFL-CIO Outlines the Plan

Having been told by foreign bankers and international organizations what to do, the "economists" who set policy for the Kennedy administration made final preparations. The January, 1963, issue of *The American Federationist* (official monthly magazine of the AFL-CIO) presented an article entitled "The Positive Role of Fiscal Policy." This article (which was actually published in December, 1962) outlined in detail the planned deficit and tax reduction that Kennedy would propose in his special messages to Congress in January, 1963. From *The American Federationist* article:

"Other countries use their fiscal policies — the combined effects of government taxing and spending — as a means of maintaining rapid economic growth. Unfortunately, fiscal policy in the United States has not been used in a rational and flexible manner as a key element in the Nation's economic policies."

The AFL-CIO economist failed to point out that those "other countries" have been receiving aid from the United States for more than 15 years. He also failed to point out that the one foreign country which has made the most miraculous recovery and has the most vigorous economy — West Germany — has rejected deficit financing. Here, for example, is an item from the December 12, 1962, issue of *EEC* (The European Common Market Newsletter) which the AFL-CIO economist ignored:

"Rejection of deficit spending by the German government as a means of spurring economic growth was voiced by Dr. Hermann Abs, managing director of the *Deutsche Bank* of Frankfurt. In direct contradiction of the advice given by the Organization for Economic Co-operation and Development, Dr. Abs said that in Germany, 'Deficit spending, if applied during the period from 1950 to 1960, would have prevented the economy from growing as it did.' He asserted that there have usually been Federal surpluses in the last decade [when German economy enjoyed "phenomenal" growth]....

"He cited a brief period of more liberal policies when the government lowered interest rates, revalued the mark, and sharply

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increased government spending. The result, he said, was a slowing of the growth rate."

The article in the AFL-CIO magazine (outlining tax and budget proposals which President Kennedy made a month later) said:

"Too many Americans still think of Federal taxing and spending in terms of the America of the 1800's. . . . That America, which required a minimum of Federal action, has disappeared along with the buffalo."

That America, to which the union economist refers, was an under-developed, thinly populated, agrarian society spread along the Atlantic Coast. The people of *That America,* and their heirs early in the next century, performed the stupendous task of conquering, settling, and developing the American wilderness, "with a minimum of federal action." Today, AFL-CIO economists are among the foremost in wailing that Americans (now in a vast country that is settled, developed, populous, industrialized and prosperous) cannot even build a schoolhouse without federal aid.

Despite the federal billions spent every year on federal aid programs, the AFL-CIO economist says:

"The pressing needs of a growing, urban population for direct Federal programs as well as Federal grants-in-aid to the States and local governments — for such programs as education, health, housing, urban redevelopment, and improved transportation facilities in metropolitan areas — require additional federal expenditures for civilian purposes."

The AFL-CIO economist repeats the oft-repeated argument that we should not fret about the national debt because we owe it to ourselves — and then explains why a federal deficit is good:

"Deficits in the federal government's fiscal operations have an expansionary impact on the economy — they add to sales, production and employment.

"The economy's needs for a rapid rise in effective demand for goods and services should be met in 1963 by a decisive change in fiscal policy. . . . But to rely on increased government expenditures to boost economic activities in 1963 would be impractical, since federal outlays would not be raised sufficiently and rapidly enough. The practical alternative, therefore, is a substantial and immediate tax cut of about $10 billion while federal expenditures continue to increase. . . .

"A tax reduction of that size would add as much as $20 billion to $25 billion to national production as the increased funds spread through the economy. It could create over 1 million jobs. . . .

"Low and middle-income families spend all or almost all their incomes. They spend additional incomes rapidly. There would be a fast and substantial boost of consumer sales from such a tax cut."

The Blueprint for Suicide

In his Budget proposal on January 17, 1963, and in his tax proposals on January 24, 1963, President Kennedy presented the fiscal program which had been outlined by the AFL-CIO: a net tax reduction of 10 billion dollars, and a planned deficit of 11.9 billion dollars. This was the first formally "planned deficit" in American history.

Yet, the President's political effort to disguise the significance of his radical proposal led him into the most dishonest and patently ridiculous budget presentation ever made.

Presenting the most extravagant budget in the history of the world (larger, by far, than the biggest budget proposed by Franklin D. Roosevelt even during the dark days of World War II, when there was absolutely no limit to expenditures), President Kennedy said:

"This budget presents a financial plan for the efficient and frugal conduct of the public business."

The administrative budget operations of the federal government for fiscal 1964, as outlined in the President's budget message, would require tax collections totalling 86 billion, 900 million dollars; expenditures, totalling 98 billion, 800 million dollars. The cash operations of the government, as outlined by the President, would require tax collections totalling 112 billion, 200 million dollars; expenditures, totalling 122 billion, 500 million dollars.

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What do such figures mean?

The total tax collections of the federal government for the first 151 years of its existence (that is, from 1789 through 1940, a period which included the cost of our War for Independence, the War of 1812, the Mexican War, the Civil War, innumerable Indian wars, the Spanish-American War, World War I, and eight years of F. D. Roosevelt spending during the Great Depression) were 121 billion, 387 million dollars.[6] In one peacetime year, Kennedy proposes to take away from the people (in direct taxes and in borrowing) *more* than was taken in 151 years by all Presidents from George Washington through the second administration of Franklin D. Roosevelt. And Kennedy called his proposals "frugal" and "efficient."

Pretending respect for economy in the handling of tax money, President Kennedy, in his budget message, said:

"I have felt obliged to limit severely my 1964 expenditure proposals. In national defense and space programs . . . I have proposed expenditure increases. Fixed interest charges on the debt will also rise. But total 1964 expenditures for all other programs in the administrative budget . . . have been . . . reduced."

United States Representative Clarence Cannon (Democrat from Missouri, Chairman of the House Appropriations Committee, a liberal spender himself and an admirer of President Kennedy, as pointed out in this *Report* last week) made an angry speech to the House, revealing that the President's statement about reducing non-defense expenditures was a deliberate misrepresentation of fact. Indeed, as Cannon showed, more than half of Kennedy's planned deficit results from non-essential, non-defense spending.

Kennedy proposed increases in practically all the programs he said he was reducing, and he urged initiation of new unconstitutional, unnecessary spending programs.

United States Representative Richard L. Roudebush (Republican, Indiana), in a report to constituents dated January 21, 1963, listed a *few* of the new and increased expenditures recommended in a budget message which said that such expenditures were being reduced:

a 1 billion dollar increase in foreign aid; a 500 million dollar increase in federal welfare programs; a 391 million dollar increase in federal spending on highways; a 165 million dollar increase in federal aid to education; a 43 million dollar increase for the Department of Justice; a 54 million dollar increase for the Department of State; a 57 million dollar increase for the Department of Interior; 70 million dollars for Cuban refugees; 60 million dollars to establish a domestic "peace corps"; and a request for 36,492 new federal employees — in addition to the 150,000 new employees already added to the federal payrolls by the New Frontier.

In his budget message, President Kennedy said that the government had run *deficits* totalling 24 billion, 300 million dollars — during the past 5 fiscal years when officialdom had estimated *surpluses* totalling 8 billion dollars. The President conceded that he and his predecessor, in five years, had spent 32 billion, 300 million dollars *more* than they had officially estimated in their budgets; yet he expressed confidence that his "planned deficit" of 11.9 billion for 1964 is a firm figure which will not be exceeded.

United States Representative August E. Johansen (Republican, Michigan) calculates that if President Kennedy's budget estimate for 1964 is as far wrong as his 1962 and 1963 budget estimates were, we will have a deficit of 20 billion dollars for 1964.[7]

In his special message on Tax Reduction and Reform, January 24, 1963, President Kennedy said:

"Our present income tax rate structure now holds back consumer demand, initiative, and investment. . . . The largest single barrier to full employment of our manpower and resources and to a higher rate of economic growth is the unrealistically heavy drag of Federal income taxes on private purchasing power, initiative and incentive. . . . Our tax system still siphons out of the private economy

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too large a share of personal and business purchasing power and reduces the incentive for risk, investment and effort. . . . The present tax code contains . . . provisions . . . which . . . artificially distort the use of resources, inhibit the mobility and formation of capital, add complexities and inequities which undermine the morale of the taxpayer, and make tax avoidance rather than market factors a prime consideration in too many economic decisions. . . .

"Tax reduction is urgently needed to spur the growth of our economy."

Having thus said things about our vicious income tax system, which people like me have been saying for years, President Kennedy urged a program which would make matters worse.

Kennedy's specific tax proposals would do the opposite of what he promised. They would further discourage private investment and expansion; and they would create more demand for federal spending and meddling in every facet of American life.

Taken together, Kennedy's budget and tax proposals for the 1964 fiscal year strike hard at the great American middle class, which is the backbone of our society. They complicate the evils of our income tax system, rather than relieve them; they are, as Senator John J. Williams called them, "the height of political hypocrisy." They are, as Senator Frank J. Lausche called them, "a boatload of dynamite," threatening "disaster" to the country. They constitute, as Senator Hugh Scott said, a "misleading, superintellectual, scramble-egghead theory" of governmental finance. They reflect, as U. S. Representative O. Clark Fisher said, "a basic lack of faith in the American system." And they are, as U. S. Representative Bruce Alger called them, a *blueprint for the fiscal suicide of the United States.*

Next week, we will examine, in further detail, the President's tax proposals — and make a tax proposal of our own.

Dan Smoot TV Film Now Available to General Public

Each week, this *Report* is abbreviated for a news-analysis type television program, which is offered for commercial sponsorship throughout the United States. At present, the program has 24 different commercial sponsors and is broadcast on 44 stations, in 13 states.

The broadcast is produced on 16 mm sound film. The playing time of each is 12 minutes — leaving three minutes for sponsor's com-

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mercials in a fifteen minute time-slot on television.

Multiple prints of each film are made. After broadcast each week, the prints are returned to this office where they serve various purposes.

This program has been in operation without interruption (every week) since the spring of 1957. Hence, we have a supply of 12-minute 16 mm sound film, covering all subjects which have been presented in this *Report* during the past 6 years.

Since the beginning, there has been strong demand for this used film. Program chairmen of service clubs (Lions, Exchange, Rotary and so on) want it for their club luncheon meetings. They feel it would evoke member participation in their regular meetings if, instead of having a speaker each time, they would periodically show a 12-minute Dan Smoot Report film, dealing with a controversial subject of immense importance — and then let the members have a free-for-all discussion of the subject.

Freedom Information Centers have asked for the Dan Smoot TV film for use in their educational work. Bookstores featuring constitutionalist and anti-communist literature want to buy the film — so that they can rent it to small groups locally, in their effort to create wider interest in freedom books and periodicals.

Requests for the Dan Smoot TV film have come from neighborhood discussion groups, church fellowship clubs, college and high school study groups, patriotic organizations, business firms, libraries, and from individuals.

We now have facilities to handle the technical problems, and work load, involved in selling and distributing the film; so, we are offering it for sale to the general public for $25.00 per print — which is considerably below the cost of production.

We have prepared a catalogue which contains not only a listing and description of all film available, but also an extensive index which will enable purchasers to select film dealing with particular subjects.

We will send the Catalogue, free of charge, to anyone interested in buying Dan Smoot television film. Just write Dan Smoot, P. O. Box 9538, Dallas 14, Texas, and ask for the Film Catalogue.

FOOTNOTES

(1) "Dillon's Treasury: His Tolerance of Deficit Spending Surprises The Financial Community," by Arthur Krock, *The New York Times*, June 25, 1961
(2) "Politics No Doubt: Why the Delay on Notice of Big Budget Deficit?" by David Lawrence, syndicated by New York Herald Tribune, Inc.
(3) "U. S. Urged To Rely On Deficit Budget: International Bank Advises To Add Jobs — Asks Rise In Interest," by Edwin L. Dale, Jr., *The New York Times*, June 8, 1962
(4) *The New York Times*, June 12, 1962
(5) Editorial, *Shreveport Journal*, June 21, 1962
(6) *1962 Federal Budget In Brief*, Bureau of the Budget, Government Printing Office, 1961, p. 54
(7) U. S. Representative August E. Johansen (Republican, Michigan) press release, January 18, 1963

WHO IS DAN SMOOT?

Dan Smoot was born in Missouri. Reared in Texas, he attended SMU in Dallas, taking BA and MA degrees from that university in 1938 and 1940.

In 1941, he joined the faculty at Harvard as a Teaching Fellow in English, doing graduate work for the degree of Doctor of Philosophy in the field of American Civilization.

In 1942, he took leave of absence from Harvard in order to join the FBI. At the close of the war, he stayed in the FBI, rather than return to Harvard.

He worked as an FBI Agent in all parts of the nation, handling all kinds of assignments. But for three and a half years, he worked exclusively on communist investigations in the industrial midwest. For two years following that, he was on FBI headquarters staff in Washington, as an Administrative Assistant to J. Edgar Hoover.

After nine and a half years in the FBI, Smoot resigned to help start the Facts Forum movement in Dallas. As the radio and television commentator for Facts Forum, Smoot, for almost four years spoke to a national audience giving both sides of great controversial issues.

In July, 1955, he resigned and started his own independent program, in order to give only one side — the side that uses fundamental American principles as a yardstick for measuring all important issues.

If you believe that Dan Smoot is providing effective tools for those who want to think and talk and write on the side of freedom, you can help immensely by subscribing, and encouraging others to subscribe, to *The Dan Smoot Report.*

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